

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 IO-13 ISO-00 AGRE-00 SP-02
USIA-06 AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04
OMB-01 CEA-01 L-03 H-01 PA-01 PRS-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
OIC-02 /115 W
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P R 132020Z JAN 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9579
INFO AMEMBASSY BOGOTA
AMEMBASSY LONDON
AMEMBASSY ABIDJAN
AMEMBASSY SAN JOSE
AMEMBASSY GUATEMALA
AMEMBASSY SAN SALVADOR
AMEMBASSY MEXICO CITY
USMISSION EC BRUSSELS
USMISSION OECD PARIS
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AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: EPAP, ETRD, BR, CO
SUBJ: COFFEE - BRAZILIAN PROPOSAL FOR ICO MEETING

REF. (A) BRASILIA 0200 (NOTAL), (B) BOGOTA 265 (NOTAL)

1. SUMMARY. BRAZIL FAVORS THE FIRST-HALF OF FEBRUARY FOR THE
SPECIAL ICO MEETING. AS FOR THE MEETING'S SUBSTANCE, BRAZIL
WILL SEEK TO CLARIFY THE MARKET SITUATION. IBC'S CALAZANS,
ACCORDING TO NEWS REPORTS, SAID BRAZIL DID NOT INTEND TO DISCUSS
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PRICES AT THE MEETING, ONLY THE SUPPLY SITUATION IN 1977 AND 1978.
CALAZANS HAS REITERATED BRAZIL'S OPPOSITION TO A PRICE FREEZE.
OUR TENTATIVE JUDGEMENT IS THAT BRAZIL SEES THE MEETING AS A
STALLING TACTIC, AND AS A FORUM IN WHICH BRAZIL, IF FORCED
TO DEFEND ITS MARKETING POLICIES (E.G., COFFEE PURCHASES),
MIGHT NOT FIND ITSELF ISOLATED. BRAZIL'S SUCCESS
IN DEFENDING ITS POLICIES WILL DEPEND IN PART ON THE

DEGREE OF CONSUMING COUNTRY COHESIVENESS. END SUMMARY.

2. ON JAN. 12, DCM ASKED AMBASSADOR SOUTO MAIOR, CHIEF OF THE FOREIGN MINISTER'S PERSONAL CABINET AND A LONG-TIME COFFEE SPECIALIST, ABOUT BRAZILIAN INTENTIONS FOR THE SPECIAL ICO MEETING. SOUTO MAIOR SAID THE IVORY COAST HAD BROACHED THE IDEA OF A MEETING SOME WEEKS AGO IN WASHINGTON. THE COLOMBIAN TELEGRAM CAME NEXT, HE SAID, AND IT "CAUGHT US BY SURPRISE" -- NOT BY ITS SUBSTANCE BUT BY ITS LEVEL: BRAZIL WOULD HAVE EXPECTED A COLOMBIAN INITIATIVE AT THE TECHNICAL LEVEL, OR AT MOST, THE MINISTERIAL LEVEL. AT THIS POINT, SOUTO MAIOR ASSERTED, COLOMBIA AS WELL AS THE IVORY COAST HAVE EXPRESSED AN INTEREST IN THE MEETING. (COMMENT. JAN. 10 BRASILIAN PRESS REPORTED THAT COLOMBIA HAS ACCEPTED GEISEL'S PROPOSAL.)

3. SOUTO MAIOR PRESUMED THAT SPECIAL MEETING WOULD BE A COUNCIL MEETING BECAUSE OF THE IMPORTANCE OF THE MATTER AND THE DEGREE OF PUBLIC ATTENTION IT HAS RECEIVED, ALTHOUGH A BOARD MEETING ALSO IS POSSIBLE. HE FORESAW A MEETING IN THE SECOND WEEK OF FEBRUARY (E.G., THE SECOND WEEK OF THE MONTH). EARLIER WOULD BE PREMATURE.

4. AS FOR THE SUBSTANCE OF THE MEETING, SOUTO MAIOR BELIEVED IT COULD CLARIFY THE MARKET SITUATION, AND INTRODUCE A DEGREE OF CALMNESS AND SECURITY IN THE MARKET. PRESS COMMENTS HAVE CONTAINED INACCURACIES, HE SAID. A COUNCIL MEETING WOULD BRING TOGETHER A SUFFICIENT NUMBER OF KNOWLEDGEABLE PEOPLE, LIMITED OFFICIAL USE

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ALONG WITH A QUALIFIED PRESS CORPS, TO ENABLE THE SITUATION TO BE CLARIFIED BROADLY, REFLECTING THE VIEW EXPRESSED IN GEISEL'S TELEGRAM TO LOPEZ MICHELSEN, SOUTO MAIOR STRESSED BRAZIL'S CONCERN THAT A REGULAR, SAFE SUPPLY OF COFFEE BE ENSURED IN THE CRITICAL YEARS OF 1977 AND 1978. THIS TOPIC WOULD HAVE TO BE DISCUSSED. IN GENERAL TERMS, SOUTO MAIOR SAID, BRAZIL WILL BE OPEN TO IDEAS FOR STEPS TO BE TAKEN, AND IS NOW GIVING CONSIDERATION TO THE POSSIBILITY OF CONCRETE STEPS.

5. AS FOR BRAZILIAN EXPORT POLICY, SOUTO MAIRO, MAINTAINED THAT BRAZIL IS EXPORTING AS MUCH AS POSSIBLE; IT IS NOT HOLDING COFFEE BACK. SOME, HE SAID, MAY SAY BRAZIL IS EXPORTING TOO MUCH -- BUT NO ONE CAN PROVE BRAZIL IS EXPORTING TOO LITTLE. HE ADDED THAT THE GOB CANNOT AT THIS TIME FORECAST THE SUPPLY SITUATION FOR 1978.

6. MARKET SPECULATION, SOUTO MAIOR STRESSED, SHOULD NOT BE ENCOURAGED. HE DESCRIBED TWO KINDS OF SPECULATORS --

THE KNOWLEDGEABLE ONES AND THOSE WHO ENTER THE MARKET OCCASIONALLY IN QUEST OF A WINDFALL PROFIT. THE LATTER ARE A DESTABLIZING FACTOR. AN EVENT LIKE A BOYCOTT SCARES THEM, SOUTO MAIOR OBSERVED, AND THEY BEGIN SELLING FAST. THEY REENTER THE MARKET WHEN SCARCITY DEVELOPS. BRAZIL, HE SAID, DISLIKES THE SHARP PRICE FLUCTUATIONS PRODUCED BY SPECULATION.

7. SOUTO MAIOR CLOSED BY STRESSING AN "IMPORTANT" ELEMENT: THE EXPORTERS IN THIS CASE ARE TAKING THE INITIATIVE. USUALLY WHEN PRICES ARE HIGH THE IMPORTERS TAKE THE INITIATIVE. THAT THE IMPORTERS HAVE NOT SUGGESTS THEY THINK PRICES NOW ARE DETERMINED BY A "GENUINE STATISTICAL SITUATION" AND NOT BY SPECULATION, IN SOUTO MAIOR'S OPINION.

8. SEVERAL GOB OFFICIALS HAVE BEEN QUOTED IN THE PRESS. ACCORDING TO O ESTADO DE SAO PAULO, MINISTER OF INDUSTRY LIMITED OFFICIAL USE

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AND COMMERCE SEVERO GOMES, WITHIN WHOSE JURIDICION THE BRAZILIAN COFFEE INSTITUTE (IBC) FALLS, STATED THAT "AT NO TIME HAS BRAZIL CONSIDERED ANY MECHANISM FOR PRICE MAINTENANCE." GOMES PREDICTED THAT THE RECENT "ARTIFICIAL" DECLINING TENDENCY IN COFFEE PRICES WAS TEMPORARY, BECAUSE THERE IS NO COFFEE IN OTHER COUNTRIES. ACCORDING TO O ESTADO, GOMES CLAIMED BRAZIL IS WATCHING THE BEHAVIOR OF COFFEE IMPORTERS AROUND THE WORLD, AND BRAZIL KNOWS THEY "ARE NOT ABLE" TO MANIPULATE THE MARKET.

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9. CAMILO CALAZANS, PRESIDENT OF IBC, CALLED THE BOYCOTT IN THE US A "PANICKY MANEUVER" (MANOBRA TERRORISTA), ACCORDING TO THE JAN. 12 BRAZILIAN PRESS. CALAZANS REPORTEDLY OPPOSED A PRICE FREEZE. HE COMMENTED, THE PRESS SAID, THAT BRAZILIAN EXPORTERS COULD CEASE EXPORTING FOR A THREE-MONTH PERIOD WITHOUT SACRIFICING PROFITS. ACCORDING TO GAZETA MERCANTIL (JAN. 12), CALAZANS SAID BRAZIL DOES NOT INTEND DISCUSS PRICES AT THE SPECIAL ICO MEETING, BECAUSE OF THE UNDENIABLE SCARCITY OF COFFEE. RATHER, BRAZIL INTENDS ONLY TO TRY TO DEFINE A POLICY THAT WILL GUARANTEE COFFEE SUPPLIES TO THE LIMITED OFFICIAL USE

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WORLD MARKET IN 1977 AND 1978. ACCORDING TO GAZETA, CALAZANS, IN REMARKS ABOUT SPECULATION, CHARGED THAT US CONGRESSMAN FREDERICK RICHMOND "HAD BEEN SEEN SPECULATING" IN COFFEE AT THE NEW YORK EXCHANGE. THROUGH APRIL, ACCORDING TO CALAZANS AS QUOTED IN O ESTADO, 4 MILLION BAGS ALREADY HAVE BEEN REGISTERED FOR EXPORT -- THUS THE CONTRIBUTION QUOTA OF DOLS 100 PER BAG HAS NOT DIMINISHED EXPORT REGISTRATIONS. IBC STOCKS, HE REPORTEDLY SAID, ARE 7.6 MILLION BAGS AND PRIVATE STOCKS, 12 MILLION BAGS. GAZETA REPORTED THAT CALAZANS FORESAW GREATER BRAZILIAN COFFEE EXPORTS IN JANUARY THAN IN DECEMBER, WHEN THEY REACHED A RECORD DOLS 580 MILLION.

10. COMMENT. OUR TENTATIVE JUDGMENT IS THAT THE GOB SEES THE SPECIAL ICO MEETING AS : (A) A STALLING TACTIC, DESIGNED TO AVERT PRODUCER (OR CONSUMER) PRESSURES FOR MORE DRASTIC ACTION (E.G., PRICE FREEZE) IN THE FACE OF WHAT APPEARS TO BE A GENUINE PRODUCER CONCERN ABOUT THE POSSIBLE DIRECT AND EMULATIVE EFFECTS OF THE CONSUMER BOYCOTT EFFORTS IN NEW YORK; (B) A VEHICLE FOR REASSURING CONSUMERS, THUS HELPING TO DETER UNILATERAL OR JOINT CON-

SUMER ACTIONS THAT MIGHT BE HARMFUL TO SHORT- OR LONG-TERM PRODUCER INTERESTS; AND, (C) A FORUM FOR BRAZIL, WITH PASSIVE OR ACTIVE SUPPORT FROM OTHER PRODUCERS IN THE ICO, TO DEFEND THE STRATEGY BRAZIL EMPLOYED IN 1976 TO MAINTAIN PRICES THROUGH MARKETING POLICIES (I.E., PURCHASES OF COFFEE FROM EL SALVADOR AND THE MALAGASY REPUBLIC; CALAZANS' ANNOUNCEMENT OF A 12 MILLION BAG EXPORT TARGET IN 1977; AND THE INCREASES IN THE CONTRIBUTION QUOTA).

11. FROM CONSUMING COUNTRIES, THE BRAZILIANS UNDOUBTEDLY EXPECT GREATER CRITICISM THAN FROM FELLOW PRODUCERS, WHICH, AFTER ALL, BENEFITTED FROM BRAZILIAN MARKETING POLICIES TO THE EXTENT THEY RAISED WORLD PRICES. TO DATE, THE USG STILL SEEMS TO BE THE ONLY GOVERNMENT THAT HAS COMPLAINED TO THE GOB ABOUT BRAZILIAN COFFEE PURCHASES. THE GOB MAY FIGURE THE USG WILL TRY TO PERSUADE OTHER CONSUMING LIMITED OFFICIAL USE

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GOVERNMENTS TOWARD THIS COURSE OF ACTION.

12. JUDGING FROM WHAT WE HAVE SEEN IN THE WORLD PRESS, PUBLIC OPINION IN CONSUMING COUNTRIES DOES NOT BLAME BRAZILIAN MARKETING POLICIES FOR A SIGNIFICANT ROLE IN THE MORE-THAN-DOUBLING OF COFFEE PRICES IN 1976 OVER THE HIGH POST-FREEZE PRICES IN THE SECOND-HALF OF 1975. WE SUSPECT, HOWEVER, THE GOB REALIZES THAT THE FOCUS OF GREATER WORLD ATTENTION ON THE COFFEE SITUATION (E.G., AS A RESULT OF THE ICO MEETING AND ANY CONGRESSIONAL HEARINGS) COULD UNLEASH SOME CONSUMER CRITICISM.

13. GOB IS LIKELY TO DEFEND ITS POLICIES WITH FOLLOWING ARGUMENTS: (A) THE PURCHASES WERE MADE TO SUPPLY THE DOMESTIC SOLUBLE INDUSTRY, (B) BRAZIL HAS A SERIOUS EXTERNAL PAYMENTS PROBLEM (A CURRENT ACCOUNT DEFICIT IN 1976 OF ABOUT DOLS 6 BILLION DESPITE RECORD COFFEE EXPORT RECEIPTS OF DOLS 2.3 BILLION); AND (C) BRAZIL'S PURCHASING POLICIES VIOLATED NEITHER THE SPIRIT NOR THE LETTER OF THE ICA; THEY WERE DESIGNED ONLY TO OFFSET ARTIFICIAL "SPECULATION THAT DRIVES DOWN PRICES" (ESPECULACOES BAIXISTAS), FURTHERMORE, BRAZIL HAS EVERY RIGHT TO PROTECT ITSELF IN A MARKET "DOMINATED" BY WHAT BRAZILIANS PERCEIVE AS OLIGOPOLISTIC, POSSIBLY-COLLUDING IMPORTER-ROASTER COMPANIES. RIGHTLY OR WRONG, GOB OFFICIALS APPEAR RIGHTEOUS ABOUT THE THEORETICAL AND EMPIRICAL VALIDITY OF THESE VIEW. HOW SUCCESSFULLY BRAZIL DEFENDS THEM WILL DEPEND IN PART ON THE DEGREE OF CONSUMER COHESIVENESS.

14. ACTION REQUESTED. EMBASSY WOULD APPRECIATE WASHINGTON REACTION TO THE ICO INITIATIVE, AS WELL AS ANY VIEWS IT COULD

PASS ON TO THE GOB. AMBASSADOR SOUTO MAIOR EXPRESSED GREAT
INTEREST IN RECEIVING US VIEWS SOON.
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Message Attributes

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